

April 1, 1999

Cheryl M. Kimball, Esq.

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21 Custom House Street

Boston, MA 02110-3525

Re: Boston Gas Company, D.T.E. 98-98

Dear Ms. Kimball:

On September 15, 1998, Boston Gas Company ("Boston Gas" or "Company") filed with the Department of Telecommunications and Energy ("Department") its second annual performance-based regulation ("PBR") rate adjustments filing, in compliance with the Department's orders in Boston Gas Company, D.P.U./D.T.E. 96-50, 96-50-C, and 97-92.⁽¹⁾ The filing proposed changes to tariffs M.D.T.E. No. 1089 through M.D.T.E. No. 1103. The revised tariffs were filed by the Company as M.D.T.E. No. 1106 through M.D.T.E. No. 1120. The matter was docketed as D.T.E. 98-98.

The Department conducted a public hearing in D.T.E. 98-98 on October 30, 1998. At the hearing, the Attorney General requested that the proposed rates go into effect subject to further investigation on issues concerning the rate adjustments. The Department approved the Attorney General's request and, accordingly, opened an investigation. On October 30, 1998, the Department issued a Letter Order that approved the changes to the tariffs subject to further investigation.

During the investigation, the Attorney General raised two issues: (1) whether Boston Gas under its PBR plan met the telephone service factor ("TSF") component of the service quality index ("SQI") as established by the Department; and (2) whether Boston Gas should still be

recovering lost base revenues ("LBR") for demand-side management programs (Exh. AG 3-1).⁽²⁾ The Department takes this opportunity to discuss these two issues in further detail.

I. BOSTON GAS' SQI TARGET

The TSF component of the SQI designed in D.P.U. 96-50, at 303-311, establishes performance targets that the Company is required to accomplish in answering emergency, billing, and service telephone calls initiated by its customers. Specifically, to reach the TSF target, the Company must answer 90 percent of emergency calls and 80 percent of service and billing calls within 40 seconds. D.P.U. 96-50-C, at 63. If Boston Gas does not achieve its TSF target, it is penalized by a decrease of \$140,000 in its allowed revenues for each one percent below the target, up to a maximum penalty of \$700,000. *Id.* at 310.

In order to record the number of calls and the time within which each call is answered, Boston Gas uses a computerized telephone system called the Telequent System (Exh. AG 1-11). The Telequent System is able to categorize each call as either: (1) emergency; (2) billing; or (3) service (*id.*). However, the menu options that a customer actually hears when he/she calls Boston Gas are: (1) reporting a gas leak; (2) billing information; or (3) opening or closing an account (*id.*). Calls in which the first option is chosen are categorized as "emergency" calls (*id.*). Calls in which the second option is chosen are categorized as "billing," and calls in which the third option is chosen are categorized as "service" (*id.*). When an option is not selected, the Telequent System puts the call in a queue for an operator and categorizes the call as miscellaneous (*id.*). Miscellaneous calls totaled 441,145, or 40 percent, of the Company's total customer telephone calls for the 1998 PBR filing year (*id.* at 2, 4). Of these calls, 311,422 or 70.59 percent were handled within 40 seconds (Exh. DTE-2-2; Exh. AG-2-3).

The Attorney General claims that the miscellaneous calls are actually service calls, the purpose of which did not specifically fit into one of Boston Gas' three menu options

(Exh. AG 3-1 at 2). The Attorney General argues that it is a service obligation of the Company to answer customer inquiries about services not explicitly categorized into the three menu selections offered by the Telequent system (id.).⁽³⁾ According to the Attorney General, the Department should apply the same performance target and penalty measures, established for service calls, to miscellaneous calls, that is, 80 percent of miscellaneous calls must be answered within 40 seconds (id.). The Attorney General argues that, based on those performance targets and penalty measures, Boston Gas fell short of its TSF by 2.19 percent,⁽⁴⁾ and accordingly should be penalized by reducing its rate adjustment by \$280,000 (id.).

Boston Gas states that the Telequent System offers callers three menu options, emergency, billing, and service (BG 1-1 at 4). According to Boston Gas, calls by customers who do not make a menu selection cannot be categorized into the three TSF categories (id.). The Company states that, since a customer may be calling for reasons that may have little or no relation to the three identified categories, the inclusion of the miscellaneous calls into the TSF would distort the analysis and would be inconsistent with the goal of SQI (id.). Additionally, Boston Gas argues that in its initial brief in D.P.U. 96-50, it stated that calls in which none of the three options were selected would be excluded from measurement (id.).

The Department notes that the PBR plan approved by the Department allows for miscellaneous calls that are not included in the TSF. The record does not indicate whether in fact all or a portion of miscellaneous calls should be categorized as service calls. In the absence of such a record, the Department is not persuaded to impose a penalty on the Company on the basis of the Attorney General's assertion that all miscellaneous calls should be categorized as service calls. The Department finds that imposing such a penalty would be inconsistent with the PBR and, therefore, denies the request of the Attorney General.

However, the Department is concerned about the large number of miscellaneous calls in Boston Gas' 1998 PBR filing. Although the Company stated in D.P.U. 96-50 that calls in which no menu option was selected would be excluded from the TSF, it was not the Department's intention to permit 40 percent of all incoming calls to Boston Gas to go unmeasured. The Department notes that in its brief in D.P.U. 96-50, Boston Gas stated that a "service" menu option would be available (Exh. BG 2-1, at Appendix A). However, currently there is no general "service" menu option. Instead, the Telequent System only provides the more specific menu options of "billing information" and "opening and closing an account." This shortcoming may, in part, be a reason for the large number of miscellaneous calls. As the Attorney General noted, there are other possible service-related inquiries, including those relating to meter readings, meter changes, winter

termination policy, elderly and illness termination rights, apartment posting notices, credit questions, information regarding moving, and tenant rights. Currently, such calls are falling into the miscellaneous category, and Boston Gas' performance in handling these calls is not being measured.

Therefore, the Department directs Boston Gas to substantially reduce the number of miscellaneous telephone calls and calls that would otherwise not be categorized, prior to the Company's September 2000, PBR filing. The Department also directs Boston Gas to submit, within 60 days from the date of this letter, a plan that would enable the Company to categorize 85 percent of all calls as either emergency, billing, or service. Boston Gas shall include with this plan its best estimate of the cost of implementing such a plan. Boston Gas is also directed to estimate the costs associated with categorizing 90 and 95 percent of all calls as emergency, billing, or service.

II. LBR RECOVERY

In D.P.U. 96-50 (Phase I) at 338, the Department permitted Boston Gas to make annual adjustments to its PBR filing to collect LBR⁽⁵⁾ that the Company will experience as a result of the DSM measures installed in the previous year.⁽⁶⁾

The Attorney General argues that no LBR adjustments should be allowed in Boston Gas' PBR compliance filing because recovery of LBR is no longer appropriate especially since Boston Gas is under a PBR structure and is earning in excess of its allowed return (Exh. AG 3-1 at 1). The Attorney General references his briefs in Colonial Gas Company, D.T.E. 97-112 to support his position (*id.*).⁽⁷⁾ The Company argues that the LBR adjustments should be allowed because: (1) its PBR plan, as approved by the Department in D.P.U. 96-50 (Phase I), allows the LBR adjustments and, therefore, the Department's decision in D.T.E. 97-112 can have no impact on Boston Gas for the five-year duration of its PBR plan; (2) the Department's policy on the recovery of LBR is well-founded and is a long-standing element of its efforts to encourage energy conservation in the gas industry; and (3) the Company's PBR plan reestablishes base rates each year, which is different from the LBR adjustments being reviewed in D.T.E. 97-112 that are made between rate cases (Exh. BG 1-1 at 3). Boston Gas also states that the

Attorney General's only support for his argument against the Company recovering LBRs is his brief in an open proceeding that has yet to be decided by the Department (id. at

2-3).

The Department finds that the LBR adjustment proposed by Boston Gas is consistent with the adjustments permitted under the PBR Plan approved by the Department in

D.P.U. 96-50 and, therefore, allows it.

III. CONCLUSION

The Department hereby grants final approval of Boston Gas' proposed tariffs, M.D.T.E. No. 1106 through M.D.T.E. No. 1120, allowed to take effect on November 1, 1998.

Sincerely,

Janet Gail Besser, Chair

James Connelly, Commissioner

W. Robert Keating, Commissioner

Paul B. Vasington, Commissioner

Eugene J. Sullivan, Jr., Commissioner

1. On September 28, 1998, Boston Gas filed revisions to its September 15, 1998 filing to correct for an error in the calculations of the Energy Efficiency Adjustment. The correction reduced the Energy Efficiency Adjustment by \$2,963 that resulted in small changes in the charges for residential rates R-1, R-2, and R-3.

2. The Department, on its own Motion, moves the following documents into evidence: (1) Attorney General's First Set of Information Requests, as Exh. AG 1-1 through

AG 1-15; (2) Attorney General's Second Set of Information Requests, as Exh. AG 2-1 through AG 2-9; (3) Department's First Set of Information Requests, as Exh. DTE 1-1 through DTE 1-3; (4) Department's Second Set of Information Requests, as Exh. DTE 2-1 through DTE 2-4; (5) Attorney General's Brief, as Exh. AG 3-1; (6) Boston Gas Company's Reply Brief, as Exh. BG 1-1; (7) Boston Gas Company's Initial Brief in D.P.U. 96-50, as Exh. BG 2-1; and (8) Boston Gas Company's Revised Initial Filing, as Exh. BG 3-1.

3. The Attorney General claims that there are many instances where customers may have categorized the reason for their call as something other than the Company's three menu options, such as inquiries on meter readings, meter changes, winter termination policy, elderly and illness termination rights, apartment posting notices, and tenant rights (Exh. AG-3-1, at 2).

4. The Company's actual performance is calculated by weighting the actual percentages for emergency and billing/service calls in accordance with the ratio of calls received in each category to the combined total. Boston Gas Company, D.T.E. 96-50-C (Phase I) at 63 (1997).

5. LBR are defined as the non-gas-cost portion of a gas utility's base revenue that is lost between rate cases as a result of reduced sales caused by the implementation of demand-side management ("DSM") programs. Boston Gas Company, D.P.U. 90-17/18/55, at 139 (1990).

6. The Company makes two adjustments in its PBR compliance filing to determine LBR. First the Company calculates the amount of revenues it actually lost in 1997 as a result of DSM measures installed in 1997 (Exh. AG 1-9). However, this adjustment only determines a partial-year's LBR because the DSM measures were installed throughout the year as opposed to on the first day of the year (id.). Therefore, Boston Gas makes a second adjustment to annualize the LBR impact that those installations will have in 1998. The Company calculates the first adjustment to be \$39,894 and the second adjustment to be \$53,899 (BG 3-1 at Attachment 2, p. 5, Attachment 3) .

7. D.T.E. 97-112 is a petition of Colonial Gas Company to recover LBR. The Department expanded the scope of the proceeding to investigate the time period for calculating lost margins allowed for recovery by local distribution companies.